



Northern Ireland Electricity Networks Ltd

Transmission and Distribution 7th Price Control (RP7) Draft Determination

Executive Summary
November 2023



About the Utility Regulator

The Utility Regulator is the economic regulator for electricity, gas and water in Northern Ireland. We are the only multi-sectoral economic regulator in the UK covering both energy and water.

We are an independent non-ministerial government department and our main duty is to promote and protect the short- and long-term interests of consumers.

Our role is to make sure that the energy and water utility industries in Northern Ireland are regulated, and developed within ministerial policy, as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly.

We are based at Queens House in Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls, Networks and Energy Futures; and Markets and Consumer Protection.



Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



Our vision

To ensure value and sustainability in energy and water.



Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.



Abstract

The purpose of this document is to provide a short summary to inform stakeholders of our draft determination for RP7, the seventh regulatory price control for Northern Ireland Electricity Networks Ltd (NIE Networks). We have also published our main draft determination and annexes.

We are consulting and seeking feedback from stakeholders, consumers and statutory bodies on our draft determination, prior to the publication of our final determination in October 2024. The RP7 price control is due to be effective from 1 April 2025 to 31 March 2031. We are consulting on these proposals until 22 March 2024.

Audience

This document is likely to be of interest to the licence holder affected, consumers and consumer groups, other regulated companies in the energy industry, government and other statutory bodies.

Consumer impact

NIE Networks has a pivotal role in terms of 'keeping the lights on'. Both the effectiveness and efficiency of NIE Networks are key to industry and domestic consumers. The RP7 price control aims to set an efficient revenue cap to enable NIE Networks to deliver quality outputs that customers need.

NIE Networks' costs are a material and controllable element of electricity tariffs, and RP7 investment decisions are expected to underpin improvements in service delivery for consumers. This draft determination would result in a £13 reduction in network charges for each domestic consumer when compared to the NIE Networks business plan submission.

Executive Summary

Introduction

NIE Networks is responsible for building and maintaining electricity transmission and distribution networks, which allows consumers to access a secure supply of electricity. As a natural monopoly, NIE Networks is subject to economic regulation which provides protection for all electricity consumers in terms of quality and cost.

The amount of revenue which NIE Networks collects via supplier tariffs is determined by the Utility Regulator (UR) through periodic price control reviews following scrutiny and challenge of the company's business plans. RP7 is our seventh regulatory price control for NIE Networks, which will run from April 2025 – March 2031.

The process for RP7 began with the publication and consultation of our Price Control Approach document (published in March 2022). NIE Networks then provided us with their Business Plan in March 2023, which set out their plans and expenditure requests for the RP7 price control period. We assessed the company's plans for the development, operation and maintenance of its networks in light of consumer needs. We also considered the value NIE Networks provides in the delivery of both the Northern Ireland Executive's Energy Strategy and the fulfilment of the targets set by virtue of the Climate Change Act (Northern Ireland) 2022.

During this price control period, energy usage is forecast to increase in line with the Northern Ireland Executive's Energy Strategy as homes and businesses adapt to the use of decarbonised power, heat and transport options, which includes heat pumps and electric vehicles. The Energy Strategy¹ sets out substantial investment requirements, of which RP7 is a small element of. We have provided information on the estimated cost impact of our proposed decisions on customer bills however these figures are based upon forecast usage. Variances in actual energy usage will affect the actual cost to consumers.

RP7 is about delivering investment to facilitate the energy transition, and our decisions within this draft determination will ensure NIE Networks are fully able to support the energy transition in Northern Ireland. Whilst this additional investment will increase the network cost for electricity consumers, we will ensure that the transition is affordable, fair, and inclusive for all.

RP7 and the road to net zero

RP7 is creating the foundation for Northern Ireland's journey towards net zero and will facilitate a more efficient use of the electricity transmission system. This includes

¹ Page 25 DfE energy strategy <https://www.economy-ni.gov.uk/sites/default/files/publications/economy/Energy-Strategy-for-Northern-Ireland-path-to-net-zero.pdf>

enabling electricity suppliers to purchase cheaper renewable energy for their customers. It will also provide households and businesses with the infrastructure that will allow them to make use of new greener technologies. The electrification of public transport and vehicles will also be supported. The journey towards net zero has started and requires a revolution in how we use and generate electricity.

Key numbers from the Draft Determination

Total expenditure (Totex)

NIE Networks proposed a Business Plan with a total expenditure (totex) of £2.55bn over the six-year price control period. Our draft determination reduces this to £2.21bn, a reduction of £0.34bn.

The total totex submitted included £0.49bn of investment in D5 (major transmission) projects which will be determined later. Therefore, when D5 investment is not included in the comparison, the reduction of our draft determination equates to 16% of the determined totex programme. Material reductions are summarised below with further explanation provided in the main body of the text.

Area	Totex delta £m
Real price effects and efficiency	-84
Direct capex and metering	-78
IMF&T and indirects	-78
IMF&T capex scaler	-57
Market operations (including meter reading)	-11
Innovation	-10
Other	-18
Total	-338

Rate of return on capital

Our draft determination includes a gearing of 55% and a vanilla Weighted Cost of Capital (WACC) of 4.79%. This area of the price control required extensive discussion and analysis, in part due to the changes to inflation and the projected cost of debt. Our decision was reached following the robust analysis of all relevant factors and the impact on NIE Network's financeability.

Adjusting for inflation

This Draft Determination uses March 2023 inflation forecasts from the Office for Budgetary Responsibility (OBR). Updated figures were provided on 22 November 2023, however using these figures would have delayed publication of our draft determination. We will update our final determination to take account of the latest

figures provided by OBR in March 2024. Inflation forecasts remain uncertain; therefore, we are proposing that we amend the existing Rate of Return Adjustment mechanism to adjust for actual inflation in line with past decisions. We are also updating our measure of inflation to CPIH (Consumer Prices Index including owner occupiers' housing costs), as we consider this is a better reflection of actual impact on consumers.

Capital expenditure (Capex)

Our proposals relating to capital expenditure (also referred to as capex), focus on three areas: D5, direct capex investment and metering capex.

Capex category	Ask £m	DD £m	Reduction £m
D5 capex – major transmission projects	493	493	0
Direct capex investment	895	818	-76
Metering capex	50	38	-12
Total	1438	1349	-88

D5 capex is an allowance for future investment to increase the capacity or capability of the transmission network as required by the System Operator for Northern Ireland (SONI). This will be determined as additional allowances during the price control period. We have included the estimate provided by NIE Networks for the purpose of determining tariffs, but the estimate is not approved within this determination. Further submissions will be provided by NIE Networks when they have more detailed information for our approval.

Direct capex investment covers direct investment in the distribution and transmission networks. Metering capex will cover NIE Networks metering work. These figures do not include smart metering costs.

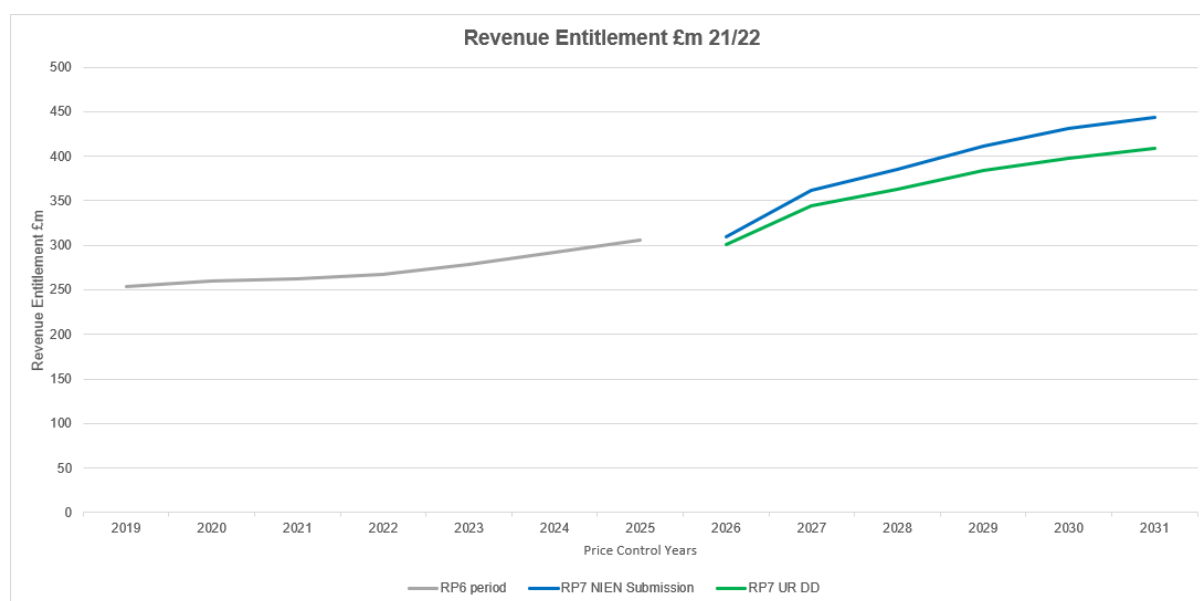
NIE Networks Revenues

NIE Networks have requested a significant increase in revenue entitlement for RP7, when compared to the most recent/current price control, RP6. This is shown in the graph below in 2021/2022 prices, using CPIH inflation assumptions. We also show our proposed RP7 draft determination figures.

Customer impact

The sections above provide detail on the allowances we are proposing to approve within the RP7 Price Control. Whilst, on occasion, we have determined a lower figure than NIE Networks requested, we are not proposing that the company delivers less, or that this will affect the journey to net-zero. Our decisions within this draft

determination have been made to enable NIE Networks to deliver the investment to facilitate the energy transition.



The calculations below are based on a best view assumption on energy usage forecasts that are consistent with the planned investment. If energy usage assumption exceeds the forecasts, this will lower the impact on energy bills. However, if energy usage is lower than forecasts, as the majority of expenditure allowed for within the price control still needs to be paid for by customers, this would increase customer bills.

Customer Group	Typical MWh/a	UR Draft determination			
		24/25	30/31	Delta (£)	Delta (%)
Domestic	3.4	173	170	-3	-2%
Small Business	16.4	718	742	24	3%
SME, LV	275	10762	11419	657	6%
SME, HV	1,593	38848	42242	3394	9%
LEU, HV	5,457	98095	108956	10861	11%
LEU, 33kV	31,075	295809	353044	57235	19%

Next steps

Our draft determination is being published for consultation. Stakeholder engagement plays an important part in our price control process. We encourage you to become part of this process, to ensure we are provided with a range of responses that will help us deliver the most robust, and informed decisions, when we finalise the price control. Your view will help shape a fair, affordable and just transition to net zero for all electricity consumers.